GRAND UNION

# 1981 ANNUAL REPORT

## CONTENTS



**Ask Me. I'm Here to Help.**

THE GRAND UNION COMPANY

## FINANCIAL HIGHLIGHTS

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 (RESTATED*) |
|---|---|---|
| Sales | $4,137,447,000 | $3,626,231,000 |
| Income before income taxes | $ 29,173,000 | $ 52,062,000 |
| Net income | $ 24,652,000 | $ 34,327,000 |
| Net income as a percent of sales | .60% | .95% |
| Working capital | $ 119,385,000 | $ 115,436,000 |
| Ratio of current assets to current liabilities | 1.43 to 1 | 1.39 to 1 |
| Number of retail outlets at fiscal year end | 732 | 856 |

**See note 6 to accompanying consolidated financial statements.*

*Live seafood, presented in specially-designed and engineered tanks, are a highlight of our new Seafood Departments.*

## CHAIRMAN'S LETTER

The 1981 fiscal year which ended on April 3, 1982, was marked by a series of dramatic contrasts for The Grand Union Company.

Sales for the 53-week fiscal year increased more than 14 percent over the previous year, reaching a new record high of more than $4.1 billion. Our net income, meanwhile, totaled $24.7 million, a drop from the $34.3 million recorded in 1980.

While the evolution of our innovative and unique Food Market concept proceeded at a quickened pace, we made a strategic decision to close a total of 222 unprofitable or obsolete stores. This store closure program, the largest ever undertaken in the company's 110-year history, entailed direct costs of $8,236,000 during the fiscal year.

The company received a total of $16,156,000 in pre-tax income for the 1981 fiscal year from Cavenham Holdings Inc., one of Grand Union's parent companies, under an agreement relating to certain real estate transactions involved in the closure program.

In addition, pre-tax income for the previous fiscal year ended March 28, 1981, included a non-recurring pre-tax gain of $6,828,000 on the redemption of Holdings preferred stock. Income taxes for the 53 weeks ended April 3, 1982, include $4,521,000 in tax benefits related to a three-year tax sharing agreement with Holdings.

We greatly intensified our private label development program, stressing the highest possible quality in all Grand Union, Big Star and Weingarten products. Our fresh food lines, product variety and range of goods were significantly expanded.

Truly, 1981 was a year totally different from any other period in our company's long history; it was a year of transition that was necessary to ensure our viability and establish a clear and direct course for the future.

As detailed in our annual report last year, Grand Union began experimenting with the Full Service Food Market concept in 1979, designing a unique store environment, upgrading and expanding food product lines, and making a commitment to a high level of service and operation by all personnel. The experiment, which was conducted in Wyckoff, New Jersey, and has since been implemented and improved upon in 22 other locations, proved to be successful beyond our projections. Clearly, we have developed a concept designed to propel us to the forefront of the retail food industry. Moreover, we have found a concept that seems to be relatively impervious to the exigencies of the economy, having the ability to sustain sales growth despite the stubbornness of the recession and a lagging economy. We are positioned on the side of the consumer with an image that is totally and innovatively Grand Union.

Realizing that we have a successful prototype, we addressed ourselves to our existing operations. We realized that not all geographic areas are suited to the Full Service Food Market concept and many existing stores simply did not fit into our plans.

We made the difficult decision to withdraw completely from a number of major markets. A total of 149 supermarkets and one BASICS Food Warehouse were closed during the fiscal year. An additional 62 supermarkets were closed in this new fiscal year. This now substantially completes our major closure program.

To adjust our company to its new dimension, we restructured the entire organization, decentralizing operational and merchandising authority into a cluster of seven regions with a total of 29 separate Operating Areas. Certain administrative functions were pared down, while additional personnel were assigned to newly-formed service departments at all levels.

Perishables supervision, especially, has been greatly increased, consistent with our expanded meat and produce departments, as well as service points for scratch bakeries, seafood, fresh meat, poultry, and delicatessen departments, a new Taste Place, bulk foods and natural foods.

Grand Union people have adjusted well to the dramatic change which has taken place in our company, and we are now poised to move ahead. We have devised a six-year capital expenditure program of approximately $700 million of which more than three-fourths will be spent on Full Service Food Markets. This year alone, our capital plan calls for over 100 major projects, almost all of which will be Full Service Food Markets, at a cost of nearly

$120 million.

In line with our marketing philosophy, we spent $20 million to upgrade our distribution centers in Atlanta and Houston, as well as on improvements and additions to our major trucking fleet. We developed entirely new sources of supply for specialty foods.

To contain costs, we have instituted rigorous measures to control expenses, have developed on-going procedures for energy conservation, and have further improved our management information systems.

While the recession has helped to stabilize retail food prices, showing a year to date inflation rate of only 3.4 percent through April, 1982, our company continues to face escalating costs for goods and services. Labor costs, in particular, exert an abnormal pull on profitability, especially in unionized areas where labor leaders fail to understand the complexities of a difficult economy and seek to impose rigid and inflexible work rules which prohibit us from competing on an equal basis with non-unionized operators. In turn, the unions do themselves an injustice. A careful analysis of patterns and trends over the years discloses a continued reduction of unionized stores as these are being closed and transferred to non-unionized operators who are capable of running them profitably.

A number of significant changes have occurred on the Board of Directors and within the company's management ranks. Dr. Rafael Pico, retired Vice Chairman of Banco Popular de Puerto Rico; Arthur Ross, Vice Chairman and Managing Director of the Central National Corporation; Martin Plowden-Roberts, Chairman and Managing Director of Allied Suppliers, Ltd., and Lionel J. Ross, formerly Financial Director of Cavenham Limited, resigned from the Board. These men gave a number of years of their talents and keen insights into service with Grand Union, and they will be missed.

Jane von der Heyde, Senior Vice President and General Counsel of General Occidental, Inc., and Vice President, Secretary and General Counsel of Cavenham Holdings, Inc., was elected to the Board of Directors.

Robert E. Mohel was elected a Corporate Vice President in charge of a new department to oversee product development and quality control. Jack Calderone was elected a Corporate Vice President in charge of Meat Merchandising, and John E. Mintz was elected a Corporate Vice President in charge of our new Service Department. Henry S. Addison, Vice President in charge of our Carolina Region, was promoted to Corporate Vice President in recognition of his outstanding contributions to our organization. Henry T. Johnson, elected a Corporate Vice President last year, was given new responsibility to head the Marketing Department.

The 1982 fiscal year will continue as a transition period for Grand Union as we move forward with our pioneer Full Service Food Market concept. While most of the restructuring is behind us, some fine tuning of the organization remains. There is no doubt that the 1982 fiscal year will be difficult in terms of profitability. We are committed to renovating and enlarging many of our most profitable stores, causing a major disruption in their operations and profit contribution which, consequently, will temporarily have a negative impact on the company's overall results.

By almost every estimate, the slowing of inflation virtually ensures an economic recovery in the latter part of this year. More slowly rising prices mean that consumers and corporations alike can buy more for their money, encouraging consumer spending and corporate capital investment. American consumers, for instance, are an estimated $35 billion a year richer because of the sharp drop in oil prices alone. Discretionary spending received a $40 billion annual boost on July 1 when personal income tax rates were reduced by 10 percent.

Grand Union faces the future in a viable position with a clearly defined direction and a solid organization. I would like to pay a special tribute to the 32,000 Grand Union, Big Star and Weingarten people who worked together this year to overcome difficulties, adjust to major changes and yet continue to make our stores pleasureable for more than 8 million weekly customers. With their continued help. our future is secure.

JULY 15, 1982

PATRICK A. DEO
*Chairman of the Board and Chief Executive Officer*

## REVIEW OF OPERATIONS

Grand Union is generating considerable excitement within the American supermarket industry as our Full Service Food Market concept develops further in its evolutionary process.

Our most recent prototype Full Service Food Markets opened in May, 1982, on East 86th Street in New York City and in June, 1982, in Butler, New Jersey. The East 86th Street store represents a unique approach with a smaller store in an urban market. Butler is at the other end of the spectrum as a larger store in a suburban setting.

Both contain Grand Union's traditional blend of staple grocery, produce and meat products as well as a full range of our specialty departments. The East 86th Street Food Market is the first to have a wall of service departments. Butler, on the other hand, features an interesting and exciting three-wall configuration of service shops.

Both units, as well as many of the other 21 Full Service Food Markets currently in operation, include such innovative specialty departments as the Bakery, where all goods are prepared fresh daily right from scratch; the Service Butcher where prime meats are cut to a customer's specifications; the Taste Place with its variety of more than 150 cheeses and delights from around the world; the Pasta Place with its freshly-prepared pasta and sauces, and the Corner Deli with its special salads, condiment bar, prepared foods and full range of cold cuts.

Among the newest features of Full Service Food Markets are Today's Catch, our seafood department with its fresh fish and other seafood delicacies including live fish and lobster tanks; the Cook's Harvest, a unique service department that contains more than 180 varieties of natural grains and flours, nuts and candy, coffees and teas, and honey, and Service Poultry, a part of the Service Butcher section offering fresh poultry and game fowl, ranging from pheasant and quail to squab, all attractively displayed on a bed of ice.

*The Cook's Harvest features a medley of natural grains and flours, nuts and candy, coffees and teas.*


*The Corner Deli is one of the most popular departments in our Full Service Food Markets with a wide variety of salads, prepared foods and condiments.*

A Nice Cream section has been added to the Bakery in many Food Markets to offer a variety of fresh-dipped ice cream cones and bulk packages. Only all natural ice cream is carried.

In areas where wine sales are permitted by law, we have experimented with a completely-redesigned Wine Department, carrying more than 100 different varieties of California wines as well as a full selection of other domestic and quality imported vintages.

We are continuing to experiment with other departmental concepts, including a Fresh Salad Bar where customers can prepare tasty salads for consumption at home; pasta extruding machines to make pasta from scratch; machines to prepare creamy, velvety fudge in the Bakery; machines to make fresh peanut butter and to roast coffee beans in the Cook's Harvest, and freshly-squeezed juice bars in Produce. Our aim is to satisfy our customers' desire for the freshest, all natural products available.

*"Customers are surprised by the assortment of baked goods that we offer...and they love the tantalizing aroma of baked goods, too."*
MICHAEL PRIOR,
*Baker*

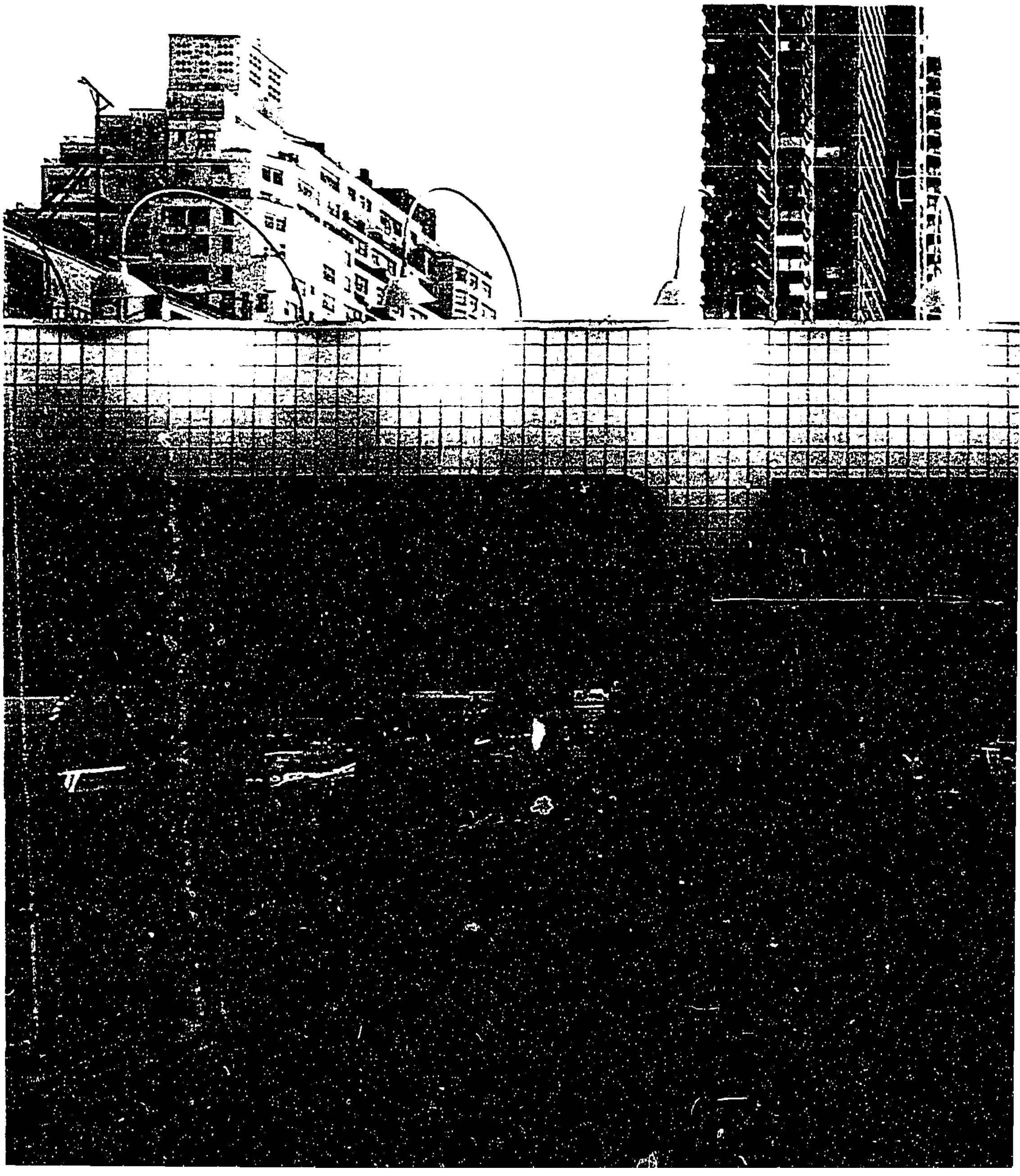
## PRIVATE LABEL DEVELOPMENT

Emphasis has continued, too, on our private label package redesign program. More than half of our Grand Union, Big Star and Weingarten private label products now bear new package designs. This program is continuing at a rapid pace.

Grand Union is committed to selling only the finest, highest quality merchandise. To this end, we are further strengthening our own internal quality control procedures and are rigorously re-testing all products to guarantee that they meet Grand Union's uncompromising high standards.

We are quickly moving forward to bring new products into the marketplace,

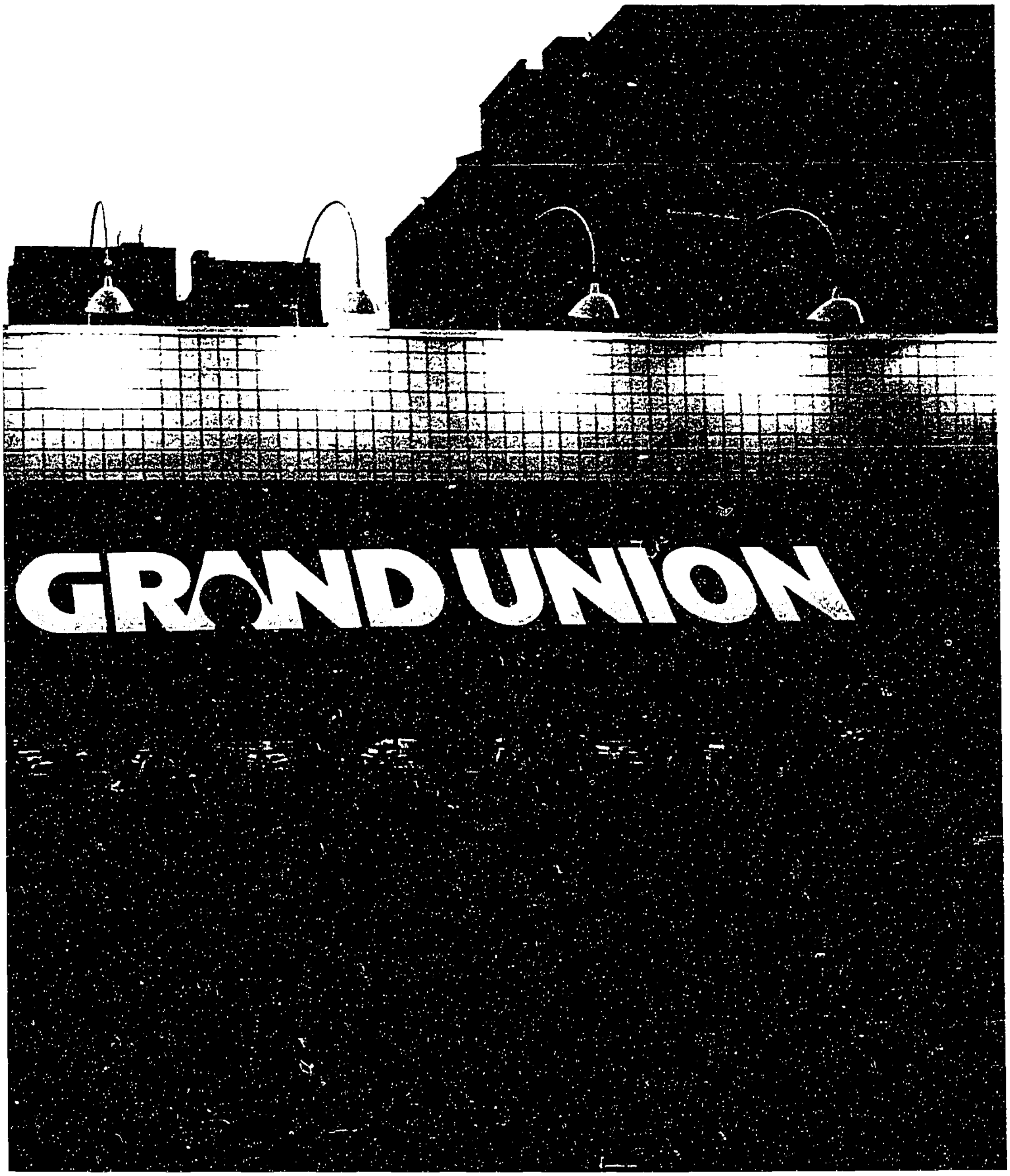
*Mayor Edward Koch officially unveiled an eight-foot high sculptured pear which highlights the facade of our Full Service Food Market on East 86th Street in New York City (shown at right).*



both for our specialty departments and for our traditional product mix. We are exploring new sources of supply and have begun preliminary efforts to establish additional buying offices.

We are not ignoring that segment of the market which seeks quality food at the lowest possible price, and are continuing development and proliferation of our BASICS generic food line.

In the marketing area, we have completely redesigned our newspaper and direct mail formats and are now working on developing new and innovative television and radio advertising approaches to communicate our Food Market message. We have prepared concise and easily-understood pamphlets to tell our customers about the exciting products to be found in our specialty departments, and will continue this program as our range of food products further expands.



*"Our seafood is the freshest in town."*
DENNIS FENEZIA,
*Seafood Department Service Clerk*

*"Prime meats and fresh poultry, prepared to a customer's specifications, are an integral part of our full service concept."*
EDWARD JONES,
*Meat Supervisor*


*"Produce is the star of the store, available in a myriad of varieties and gourmet treats."*
REUEL SMITH,
*Produce Manager*

*"The Taste Place has more than 150 varieties of cheese, enough to suit even the most discriminating cheese connoisseur."*
BABETTE NACLERIO,
*Delicatessen Manager*

## TRAINING PROGRAMS

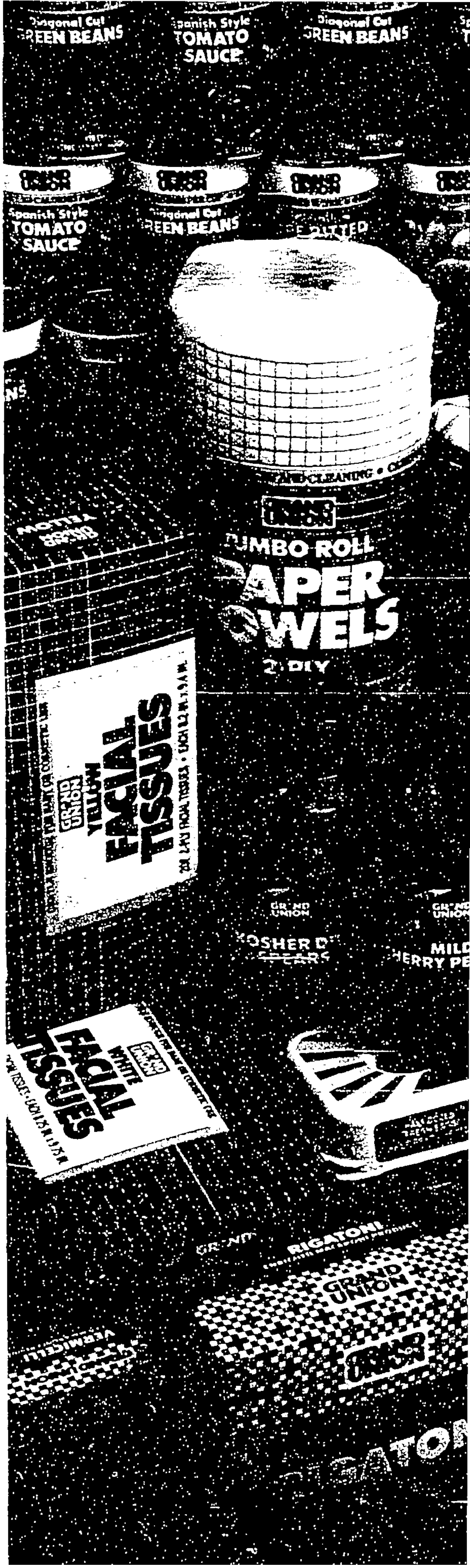
A Full Service Food Market cannot live up to its reputation, however, without a high degree of service from knowledgeable employees. To this end, we have embarked upon an intensive and enthusiastic training program, utilizing the latest audio-visual aids as well as personal contact, to orient our employees to our new food product lines as well as the essentials of delivering customer-responsive, personalized service.

Regional training centers are being established throughout the company, new training materials are being prepared and we are utilizing the services of experts both inside and outside our organization to give employees a firsthand, overall knowledge of our specialty foods.

From a technological viewpoint, we are installing electronic scanning cash register systems into high volume stores to speed customer transactions and also assure the highest degree of accuracy. Grand Union became the first food chain East of the Mississippi to install POS-italker voice synthesizers at our front end. These devices, which generated significant customer receptivity, actually call out the price of each item to the customer as the product is scanned.

Our sanitation standards are among the most stringent in the industry. Using our own personnel as well as experts from the American Sanitation Institute, all Grand Union facilities are monitored to make sure they are sanitary, clean and spotless at all times.

In distribution, we have continued to modernize our trucking fleet, and recently completed the full modernization of our Weingarten trucking operation. Similar programs were previously completed in the Grand Union and Big Star fleets.



## PUBLIC AFFAIRS

In public affairs, Grand Union won a major victory in June when the Vermont Supreme Court ruled that the state's controversial Sunday closing law was unconstitutional. Grand Union had challenged the law, alleging that it unfairly discriminated against large companies like Grand Union and, in turn, did a major disservice to the state's food shoppers by forcing them to shop for goods at other locations without the benefit of supermarket prices.

In other areas, we maintain close surveillance over federal, state and local laws which could severely impact us. One area of concern that has been prevalent recently has been a trend by state legislatures toward enactment of laws mandating bottle deposits for soft drinks and malt beverages. One such law was passed in New York, going into effect in July, 1983. We have consistently opposed such laws, not only because they tend to increase store operating costs and retail beverage prices, but also because they address only a small portion of the solid waste problem.

Our company is committed to serving the consumer, and we demonstrate this concern through the products we carry, the services we render and the high-caliber Full Service Food Markets which we operate.

As we continue to develop our enterprising Full Service Food Markets in the future, our goal is clear: we are committed to achieving prominence as the nation's leading, quality food retailer, and we will not accept any lesser stature.

*Grand Union's private label products are attractively showcased in completely-redesigned packages.*

*"Customers like to experiment with different varieties of the pasta that we cut right in the Food Market."*
GLORIA PAPALEO,
*Service Manager*

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 | March 29, 1980 |
|---|---|---|---|
| | *(Amounts in thousands)* | | |
| Sales | $4,137,447 | $3,626,231 | $3,137,612 |
| Cost of sales | (3,235,142) | (2,837,267) | (2,449,697) |
| Gross profit | 902,305 | 788,964 | 687,915 |
| Operating, administrative and general expenses (notes 3, 7, 8 and 10) | (862,558) | (730,539) | (626,882) |
| Costs related to store closure program (note 10) | (8,236) | — | — |
| Interest expense (notes 4, 7 and 10) | (22,343) | (21,358) | (19,764) |
| Interest, dividends and other income (notes 4 and 10) | 20,005 | 14,995 | 7,326 |
| Income before income taxes | 29,173 | 52,062 | 48,595 |
| Income taxes (notes 1 and 5) | (4,521) | (17,735) | (17,926) |
| Net income | 24,652 | 34,327 | 30,669 |
| Retained earnings, beginning of year: | | | |
| As previously reported | 125,829 | 110,557 | 95,590 |
| Restatement of prior years' earnings (note 6) | (3,350) | (3,350) | (3,350) |
| As restated | 122,479 | 107,207 | 92,240 |
| | 147,131 | 141,534 | 122,909 |
| Less cash dividends: | | | |
| Common | (37,700) | (19,000) | (15,650) |
| Preferred | (45) | (55) | (52) |
| Retained earnings, end of year | $ 109,386 | $ 122,479 | $ 107,207 |

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED BALANCE SHEET

| | April 3, 1982 | March 28, 1981 (RESTATED) |
|---|---|---|
| | *(Amounts in thousands)* | |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash (note 4) | $ 12,973 | $ 7,861 |
| Temporary cash investments, at cost (approximates market value) | 279 | 14,675 |
| Receivables, net, including amounts due from related parties (notes 6 and 10) | 42,488 | 27,191 |
| Inventories (note 1) | 282,400 | 332,053 |
| Prepaid taxes, operating supplies and other | 29,173 | 17,652 |
| Properties to be sold in one year (note 1) | 29,456 | 11,150 |
| **Total current assets** | 396,769 | 410,582 |
| Property, net (notes 1 and 3) | 314,852 | 317,499 |
| Notes receivable, deferred charges and other assets | 31,889 | 43,834 |
| Cost in excess of net assets acquired (note 1) | 12,738 | 12,884 |
| | $756,248 | $784,799 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Short-term debt (note 4) | $ 11,778 | $ 843 |
| Accounts payable and accrued liabilities (note 6) | 264,047 | 290,129 |
| Income taxes (notes 1 and 5) | 1,559 | 4,174 |
| **Total current liabilities** | 277,384 | 295,146 |
| Long-term debt (note 4) | 113,571 | 114,758 |
| Long-term capital lease obligations (note 7) | 106,922 | 107,896 |
| Deferred pension obligations (notes 1 and 8) | 18,345 | 20,868 |
| Deferred income taxes (note 5) | 20,914 | 15,298 |
| Other noncurrent liabilities | 7,378 | 5,976 |
| | 544,514 | 559,942 |
| Commitments and contingencies (notes 7 and 11) | | |
| **Stockholders' equity** (notes 4, 6 and 9): | | |
| 4½% cumulative preferred stock, $50 par value; callable at $52 per share; authorized 116,000 shares; outstanding 21,709 and 22,988 shares respectively | 1,085 | 1,149 |
| Common stock, $50,000 par value; authorized 900 shares; issued and outstanding 626.5 shares | 31,327 | 31,327 |
| Additional paid-in capital | 69,936 | 69,902 |
| Retained earnings | 109,386 | 122,479 |
| **Total stockholders' equity** | 211,734 | 224,857 |
| | $756,248 | $784,799 |

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 (RESTATED) | March 29, 1980 (RESTATED) |
|---|---|---|---|
| | | *(Amounts in thousands)* | |
| **FUNDS PROVIDED:** | | | |
| Net income | $ 24,652 | $ 34,327 | $ 30,669 |
| Charges to net income not affecting working capital: | | | |
| Depreciation and amortization | 45,504 | 37,938 | 34,536 |
| Deferred income taxes | 5,616 | 2,660 | 919 |
| Working capital provided from operations | 75,772 | 74,925 | 66,124 |
| Increase in long-term debt | 1,475 | — | 30,146 |
| Increase in long-term capital lease obligations | 4,750 | 7,932 | 39,996 |
| Increase (decrease) in other noncurrent liabilities | 1,402 | (523) | 4,870 |
| Decrease (increase) in notes receivable, deferred charges and other assets | 10,442 | (11,177) | 1,436 |
| Book value of property dispositions | 34,417 | 6,524 | 29,964 |
| Reduction in investments | — | 21,361 | — |
| Reduction in investment in and receivable from affiliates | — | 27,630 | — |
| | 128,258 | 126,672 | 172,536 |
| **FUNDS USED:** | | | |
| Acquisitions (less working capital): | | | |
| Property, plant and equipment | — | 38,086 | — |
| Other noncurrent assets | — | 12,769 | — |
| Noncurrent liabilities | — | (18,468) | — |
| Property additions | 77,935 | 78,799 | 91,238 |
| Reduction in long-term debt | 2,785 | 10,000 | — |
| Reduction in long-term capital lease obligations | 5,814 | 2,898 | 13,635 |
| Cash dividends | 37,745 | 19,055 | 15,702 |
| Increase in investments | — | 2,079 | 5,366 |
| Increase in investment in and receivable from affiliates | — | 780 | 26,850 |
| Other, net | 30 | 402 | 1,388 |
| | 124,309 | 146,400 | 154,179 |
| Increase (decrease) in working capital | $ 3,949 | $ (19,728) | $ 18,357 |
| **CHANGES IN WORKING CAPITAL:** | | | |
| Increase (decrease) in current assets: | | | |
| Cash | $ 5,112 | $ (23,554) | $ 5,464 |
| Temporary cash investments | (14,396) | (19,343) | 13,180 |
| Receivables | 15,297 | 5,533 | 10,544 |
| Inventories | (49,653) | 65,597 | 17,225 |
| Prepaid taxes, operating supplies and other | 11,521 | 1,256 | 891 |
| Properties to be sold in one year | 18,306 | (4,339) | (39,687) |
| | (13,813) | 25,150 | 7,617 |
| Increase (decrease) in current liabilities: | | | |
| Short-term debt | 10,935 | 770 | (30,620) |
| Accounts payable and accrued liabilities | (26,082) | 43,161 | 26,737 |
| Income taxes | (2,615) | 947 | (6,857) |
| | (17,762) | 44,878 | (10,740) |
| Increase (decrease) in working capital | $ 3,949 | $ (19,728) | $ 18,357 |

*See accompanying notes to the consolidated financial statements.*

## NOTE 1 Summary of Accounting Policies

The Company is a wholly-owned subsidiary of Cavenham (USA) Inc. ("Cavenham (USA)") which in turn is a wholly-owned subsidiary of Cavenham Holdings Inc. ("Holdings").

The significant accounting policies affecting the Company's financial statements are summarized below.

**Fiscal Year.** The Company's fiscal year ends on the Saturday nearest the last day of March. Fiscal year 1981 ended on April 3, 1982 and included 53 weeks. Fiscal years 1980 and 1979 ended on March 28. 1981 and March 29, 1980, respectively, and each included 52 weeks.

**Principles of Consolidation.** The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated.

**Inventory Valuation.** Inventories are valued at the lower of first-in, first-out cost or market, cost being determined using the retail method for store inventories and average cost for warehouse and other inventories.

**Property.** Properties held under capital leases are capitalized net of any gains on sale and leaseback transactions and are amortized using the straight-line method over the life of the lease. Depreciation on owned property is computed principally using the straight-line method over the useful lives of the assets. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives.

Properties to be sold in one year are recorded at the lower of their cost or net realizable value.

**Pre-Opening Costs.** Store pre-opening costs are charged to expense as incurred.

**Cost in Excess of Net Assets Acquired.** Cost in excess of net assets acquired relating to acquisitions after October 31, 1970 is being amortized on a straight-line basis over forty years.

Management does not believe that the remaining amounts, totalling $7,412,000, which arose from acquisitions made prior to November 1, 1970, have diminished in value and accordingly is not amortizing such amounts.

**Income Taxes.** The operations of the Company are included in consolidated federal income tax returns filed by Holdings. Investment tax credits are accounted for as a reduction of income taxes in the year that the credits arise. The Company's income tax provision is computed in accordance with the terms of a tax sharing agreement with Holdings.

**Pension Plans.** The Company maintains noncontributory, trusteed pension plans covering eligible employees and a supplemental nonqualified, nontrusteed plan for certain executives. The Company's policy is to fund pension costs accrued. Pension expense for the noncontributory plans consists of normal costs plus amortization of past service costs over periods not to exceed forty years, less amortization of deferred pension obligations arising from acquisitions over a fourteen year period.

## NOTE 2 Acquisitions

In January 1981, the Company acquired the common stock of Cavenham Texas Inc. ("Cavtex"), a wholly-owned subsidiary of Holdings, whose principal asset was its 100% ownership of J. Weingarten, Incorporated ("Weingarten"), a retail food chain. Cavtex was acquired in exchange for the cancellation of an $8,000,000 receivable from Holdings. Immediately following

the acquisition, Weingarten was merged into Cavtex, Cavtex was merged into the Company and the Cavtex cumulative preferred stock held by the Company was cancelled. The net assets of Cavtex were recorded at their historical costs.

The accompanying financial statements include the results of operations of Cavtex from the date of acquisition. The following unaudited pro forma summary represents the consolidated results of operations of the Company as though the acquisition had been made at the beginning of each of the years presented:

| | 52 WEEKS ENDED March 28, 1981 | March 29, 1980 |
|---|---|---|
| | *(in thousands)* | |
| Sales | $4,110,000 | $3,721,000 |
| Net income | $ 33,600 | $ 30,400 |

## NOTE 3 Property

Property, at cost, consists of the following:

| | April 3, 1982 | March 28, 1981 |
|---|---|---|
| | *(in thousands)* | |
| Property owned: | | |
| Land | $ 7,897 | $ 6,651 |
| Buildings | 14,556 | 10,773 |
| Fixtures and equipment | 286,857 | 307,755 |
| Leasehold improvements | 72,966 | 73,108 |
| | 382,276 | 398,287 |
| Less: accumulated depreciation and amortization | 160,076 | 177,330 |
| Property owned, net | 222,200 | 220,957 |
| Property leased: | | |
| Land and buildings | 113,544 | 116,552 |
| Equipment | 4,146 | 4,191 |
| | 117,690 | 120,743 |
| Less: accumulated amortization | 25,038 | 24,201 |
| Property leased, net | 92,652 | 96,542 |
| Property, net | $314,852 | $317,499 |

## NOTE 4 Debt

Debt consists of the following:

| | April 3, 1982 | March 28, 1981 |
|---|---|---|
| | *(in thousands)* | |
| Short-term notes payable to bank, interest at 16.1%, due April 9, 1982 | $ 11,000 | $ — |
| 8.95% Promissory Note | 95,000 | 95,000 |
| 8% Sinking Fund Debentures, less unamortized discount of $726,000 and $913,000 resulting in an effective interest rate of 10% | 11,742 | 14,087 |
| 7¼% Subordinate Cumulative Income Debentures, less unamortized discount of $443,000 and $526,000 resulting in an effective interest rate of 13% | 3,837 | 4 154 |
| Mortgages, interest at 7¾% to 18% | 3,770 | 2,360 |
| | 125,349 | 115,601 |
| Less: amounts due within one year | 11,778 | 843 |
| Long-term debt | $113,571 | $114,758 |

The 8.95% Promissory Note agreement requires annual repayments of principal of $5,000,000 from 1984 to 1985, $6,150,000 from 1986 to 1998 and $5,050,000 in 1999.

During fiscal year 1981, the Company acquired $2,532,000 of its 8% Sinking Fund Debentures due 1996 in anticipation of its sinking fund requirements for 1982 through 1984 resulting in a gain of $1,119,000. Required annual sinking fund payments are $668,000 in 1985, $800,000 from 1986 to 1995 and $3,800,000 in 1996.

The 7¼% Subordinate Cumulative Income Debentures require quarterly purchase fund payments of $100,000 from 1982 through 1986 and $2,280,000 in June 1987.

The above agreements contain various restrictions on the Company including provisions with respect to long-term debt and the payment of dividends. At April 3, 1982 approximately $19,200,000 of the Company's retained earnings were free of dividend restrictions.

Maturities of the above debt over the next five years are $11,778,000, $704,000, $5,724,000, $6,140,000 and $7,427,000, respectively.

The Company has unused borrowing arrangements with a number of banks aggregating $58,000,000 which can be cancelled at the option of the banks. To the extent that compensating balances are maintained, a substantial portion of such balances would normally be covered by incompleted transactions with banks. The average amount of short-term borrowings outstanding during fiscal year 1981 approximated $8,900,000 at an average interest rate of 14.8%. The maximum amount of short-term borrowings outstanding at any time during fiscal year 1981 was $38,000,000.

## NOTE 5 Income Taxes

The components of the provision for income taxes are as follows:

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 | March 29, 1980 |
|---|---|---|---|
| | (in thousands) | | |
| Federal income tax expense: | | | |
| Currently payable | $ 3,568 | $13,854 | $13,521 |
| Deferred, resulting from: | | | |
| Excess of tax over book depreciation | 2,975 | 2,576 | 1,909 |
| Self-insurance expense | (3,810) | (1,649) | (1,810) |
| Pension expense | (1,482) | 205 | 129 |
| Other | 1,403 | 2 | 631 |
| State income taxes | 1,867 | 2,747 | 3,546 |
| Total income tax provision | $ 4,521 | $17,735 | $17,926 |

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for income taxes is as follows:

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 | March 29, 1980 |
|---|---|---|---|
| | (in thousands) | | |
| Provision computed at federal statutory tax rate | $13,420 | $23,948 | $22,355 |
| Increase (decrease) in the provision resulting from: | | | |
| Tax sharing benefits | (4,521) | — | (1,031) |
| Dividends received deduction | (66) | (1,891) | (721) |
| Investment tax credit | (4,800) | (5,055) | (3,700) |
| Income taxed at capital gains rate | (832) | (1,231) | (1,269) |
| State and local taxes, net of federal tax benefits | 1,008 | 1,483 | 1,915 |
| Other | 312 | 481 | 377 |
| Total income tax provision | $ 4,521 | $17,735 | $17,926 |

During fiscal year 1981, the Company entered into a new three-year tax sharing agreement with Holdings, effective March 29, 1981, whereby the Company receives tax sharing benefits from Holdings equal to 50% of the Company's tax provision to the extent such credits are available from Holdings.

In fiscal year 1979, the Company was a party to a tax sharing agreement with Holdings which provided for a reduction of its federal income tax provision by 15% of the amount by which the Company's consolidated federal income tax liability exceeded the consolidated tax liability of Holdings. In fiscal year 1980, the tax

sharing agreement was amended whereby the Company did not receive tax sharing payments from Holdings.

results of operations were not significantly affected in any of the years presented.

## NOTE 6 Receivables, Accounts Payable and Accrued Liabilities

Receivables consist of the following:

| | April 3, 1982 | March 28, 1981 |
|---|---|---|
| | *(in thousands)* | |
| Trade and other receivables | $26,095 | $19,611 |
| Note receivable | — | 6,930 |
| Less: allowance for doubtful accounts | (456) | (1,046) |
| | 25,639 | 25,495 |
| Due from related parties | 16,849 | 1,696 |
| Total | $42,488 | $27,191 |

Accounts payable and accrued liabilities consist of the following:

| | April 3, 1982 | March 28, 1981 (Restated) |
|---|---|---|
| | *(in thousands)* | |
| Accounts payable | $153,365 | $187,586 |
| Accrued liabilities: | | |
| Payroll including compensated absences | 31,414 | 32,074 |
| Taxes other than income taxes | 20,094 | 19,104 |
| Self-insurance | 23,310 | 11,293 |
| Other | 35,864 | 40,072 |
| Total | $264,047 | $290,129 |

In accordance with the requirements of Statement of Financial Accounting Standards No. 43, Accounting for Compensated Absences, the Company recorded an additional $6,700,000 liability for compensated absences during fiscal year 1981. Accordingly, the Company reduced its retained earnings at the beginning of the earliest fiscal year presented by $3,350,000, net of taxes, representing the cumulative effect of this change. The

## NOTE 7 Property Leases

The Company operates principally in leased stores, distribution facilities and offices and, in most cases, holds renewal options with varying terms. Many of the leases contain escalation clauses which provide for increased rentals based upon increases in real estate taxes and lessors' operating expenses.

The following is a schedule by year of future minimum payments under capital leases together with the present value of the net minimum lease payments as of April 3, 1982:

| | *(in thousands)* |
|---|---|
| 1982 | $ 14,606 |
| 1983 | 14,525 |
| 1984 | 14,397 |
| 1985 | 13,841 |
| 1986 | 13,768 |
| Later years | 245,953 |
| Total minimum lease payments | 317,090 |
| Less: amount representing estimated executory costs included in total minimum lease payments | 11,177 |
| Net minimum lease payments | 305,913 |
| Less: amount representing interest | 194,930 |
| Present value of net minimum lease payments | 110,983 |
| Less: current portion of obligations under capital leases | 4,061 |
| Long-term capital lease obligations | $106,922 |

The minimum lease payments shown above do not include future minimum sublease rental income of $9,533,000 under noncancellable subleases or payments for contingent rentals under certain store leases on the basis of percentages of sales in excess of stipulated amounts.

The following is a schedule by year of future minimum rental payments required, less minimum sublease rental income, under operating leases that have initial lease terms in excess of one year as of April 3, 1982:

| | (in thousands) |
|---|---|
| 1982 | $ 43,660 |
| 1983 | 39,914 |
| 1984 | 36,028 |
| 1985 | 33,303 |
| 1986 | 31,401 |
| Later years | 277,386 |
| Total minimum payments | 461,692 |
| Less: sublease rental income | 12,366 |
| Net minimum rentals | $449,326 |

The following schedule shows the composition of total rental expense for all operating leases:

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 | March 29, 1980 |
|---|---|---|---|
| | (in thousands) | | |
| Minimum rentals | $46,583 | $39,091 | $35,426 |
| Contingent rentals | 6,607 | 5,452 | 5,466 |
| Less: sublease rental income | (5,404) | (4,960) | (2,827) |
| | $47,786 | $39,583 | $38,065 |

## NOTE 8 Pension Plans

Pension expense under the Company's pension plans described in Note 1 was $7,506,000, $9,729,000, and $9,537,000 for fiscal year 1981, fiscal year 1980 and fiscal year 1979, respectively. Pension expense for fiscal year 1981 has been reduced by $2,434,000 to reflect a change in the actuarial assumed rates of return on plan net assets from 6½% and 8% in fiscal year 1980 to 8½% in fiscal year 1981.

A comparison of accumulated plan benefits and plan net assets as of the latest available actuarial valuation date is as follows:

| | April 1, 1981 | 1980 |
|---|---|---|
| | (in thousands) | |
| Actuarial present value of accumulated plan benefits: | | |
| Vested | $103,588 | $112,512 |
| Nonvested | 9,647 | 12,216 |
| | $113,235 | $124,728 |
| Plan net assets available for benefits | $110,255 | $ 88,462 |
| Recorded liability for unfunded vested benefits | 20,868 | 20,559 |
| | $131,123 | $109,021 |

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits ranged from 6½% to 8% for the April 1, 1980 valuation and was 8½% for the April 1, 1981 valuation.

## NOTE 9 Stockholders' Equity

Changes in additional paid-in capital and treasury stock are as follows:

| | Paid-in Capital | Treasury Stock |
|---|---|---|
| | (in thousands) | |
| Balance March 31, 1979 | $ 69,694 | $ — |
| Purchase of 7,693 shares of preferred stock | — | 196 |
| Retirement of 7,693 preferred shares held in treasury | 188 | (196) |
| Balance March 29, 1980 | 69,882 | — |
| Purchase of 731 shares of preferred stock | — | 17 |
| Retirement of 731 preferred shares held in treasury | 20 | (17) |
| Balance March 28, 1981 | 69,902 | — |
| Purchase of 1,279 shares of preferred stock | — | 30 |
| Retirement of 1,279 preferred shares held in treasury | 34 | (30) |
| Balance April 3, 1982 | $ 69,936 | $ — |

## NOTE 10 Transactions with Affiliates

Included in other income were the following transactions with affiliates:

| | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981 | March 29, 1980 |
|---|---|---|---|
| | *(in thousands)* | | |
| Consideration under real estate agreement with Holdings | $16,156 | $ — | $ — |
| Interest and dividend income | — | 4,720 | 684 |
| Redemption of Holdings preferred shares | — | 6,828 | — |
| | $16,156 | $11,548 | $ 684 |

During fiscal year 1981 the Company entered into an agreement with Holdings relating to certain real estate transactions. Under the agreement, Holdings has agreed to pay the Company an amount equal to any losses or other costs incurred in connection with the closure of 222 retail stores and with the disposition of other facilities by the Company as part of a program of concentrating and developing the Company's operations within certain geographic areas. In consideration for such payments Holdings shall be entitled to any profit realized in connection with the sale, use or further development of these and certain other properties. During fiscal year 1981 the Company incurred operating losses of $7,920,000 and direct costs associated with the store closure program, net of gains on sales of property and lease rights, of $8,236,000 which are reimbursable by Holdings.

During fiscal year 1980 Holdings acquired from the Company 671,171 common shares of Diamond International Corporation approximating $21,361,000, for a comparable amount of Holdings preferred stock redeemable at $42 per share. During the latter part of fiscal year 1980, the preferred shares were redeemed.

In fiscal year 1980 the Company received income from management services rendered to Cavtex prior to the merger totalling $1,750,000 which reduced operating, administrative and general expenses for the period.

Interest expense for fiscal year 1980 and fiscal year 1979 include $1,820,000 and $1,952,000, respectively, related to notes payable to affiliates.

## NOTE 11 Contingencies

In connection with the Company's acquisition in fiscal year 1978 of Colonial Stores Incorporated ("Colonial"), a retail food chain, the Federal Trade Commission has initiated a proceeding against the Company, Cavenham (USA), Holdings and Colonial contending that the acquisition violates the antimerger provisions of the federal antitrust laws. In an Initial Decision filed on October 30, 1981 the Administrative Law Judge found that the acquisition of Colonial violated the laws on the ground that the Company was an actual potential entrant into the geographic areas in which Colonial operated and ordered that the Company divest itself of Colonial within one year and that it be barred for a period of ten years from acquiring any retail food business without the Commission's prior approval. The Company has appealed the decision of the Administrative Law Judge to the full Federal Trade Commission. No order is final until all appeals have been exhausted. The management of the Company believes it has presented good and meritorious grounds to support its appeal to the Commission.

The Company has been named as a codefendant in numerous similar antitrust actions brought by producers and feeders of cattle. Each of the actions allege violations by the defendants of the federal antitrust laws in connection with the purchase and sale of beef and seeks damages and injunctive relief. Certain of these lawsuits were previously dis-

missed, but have been reinstated on appeal. All of these actions have been consolidated for pre-trial proceedings before the United States District Court in the Northern District of Texas. The Company has filed answers denying the material allegations of the complaints in all of the consolidated lawsuits. All of the retail defendants, including the Company, moved for summary judgment seeking dismissal of plaintiff's treble damage claim which motion has been granted. It is not possible to predict with any degree of certainty the ultimate outcome of any of these lawsuits since, among other things, the conduct of the other defendants as alleged co-conspirators could affect the liability of the Company. The management of the Company believes that the Company has good and meritorious defenses to each of such lawsuits.

A purported class and derivative action has been brought against the Company and its parents seeking the rescission of the merger in which Cavenham (USA) acquired the remaining 19% minority interest in the Company's common stock and the recovery of unspecified damages, costs and attorneys' fees. The Company and its parents believe that its actions have been entirely proper and lawful, and intend to defend the lawsuit vigorously.

## NOTE 12 Subsequent Event

On May 29, 1982 the Company announced its plan for the closure of its 16 stores in Puerto Rico. The decision to close these stores was made in anticipation of the immediate sale of 11 supermarkets to a single buyer. On June 3, 1982, a temporary restraining order was issued by the Superior Court of the Commonwealth of Puerto Rico enjoining the Company from selling the stores to the intended buyer or to any other potential buyer. Because of that court order, the anticipated sale could not be completed. On June 23, 1982 this temporary restraining order was lifted by the Superior Court and the Company is now able to enter into discussions for the possible disposition of the 16 stores.

A new order, however, was issued by the Superior Court at the joint request of the Department of Justice of Puerto Rico and the Company which requires the Company to request approval of the Department of Justice of Puerto Rico for any proposed disposition not less than seven business days prior to the consummation thereof. It is the Company's belief that the cost of the closure and disposal of these operations will not be material in relation to the financial position of the Company.

## REPORT OF INDEPENDENT ACCOUNTANTS

**To the Board of Directors and Stockholders of The Grand Union Company:**

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of The Grand Union Company and its subsidiaries at April 3, 1982 and March 28, 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended April 3, 1982, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for compensated absences as described in Note 6 to the consolidated financial statements. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Hackensack, New Jersey
*May 12, 1982, except as to Note 12 which is as of June 23, 1982*

Price Waterhouse

## SUMMARY OF FINANCIAL INFORMATION (UNAUDITED)

| FIVE YEAR INFORMATION | 53 WEEKS ENDED April 3, 1982 | 52 WEEKS ENDED March 28, 1981(a) (RESTATED*) | March 29, 1980 (RESTATED*) | March 31, 1979(b) (RESTATED*) | April 1, 1978 (RESTATED*) |
|---|---|---|---|---|---|
| | | | *(in thousands)* | | |
| **HISTORICAL INFORMATION** | | | | | |
| Sales | $4,137,447 | $3,626,231 | $3,137,612 | $2,398,944 | $1,649,274 |
| Gross profit | $ 902,305 | $ 788,964 | $ 687,915 | $ 537,474 | $ 365,421 |
| Net income | $ 24,652 | $ 34,327 | $ 30,669 | $ 21,863 | $ 14,619 |
| Net income as a percent of sales | 0.60% | 0.95% | 0.98% | 0.91% | 0.89% |
| Dividends paid | $ 37,745 | $ 19,055 | $ 15,702 | $ 6,470 | $ 2,343 |
| Working capital | $ 119,385 | $ 115,436 | $ 135,164 | $ 116,807 | $ 148,167 |
| Total assets | $ 756,248 | $ 784,799 | $ 710,477 | $ 645,252 | $ 438,907 |
| Long-term debt | $ 113,571 | $ 114,758 | $ 119,179 | $ 88,980 | $ 65,000 |
| Capital lease obligations | $ 106,922 | $ 107,896 | $ 93,050 | $ 66,652 | $ 36,585 |
| Total long-term obligations | $ 220,493 | $ 222,654 | $ 212,229 | $ 155,632 | $ 101,585 |
| Stockholders' equity | $ 211,734 | $ 224,857 | $ 209,602 | $ 194,832 | $ 179,531 |
| **HISTORICAL INFORMATION ADJUSTED TO AVERAGE FISCAL 1981 DOLLARS** | | | | | |
| **Constant Dollar Information** | | | | | |
| Sales | $4,137,447 | $3,969,678 | $3,871,768 | $3,325,672 | $2,481,066 |
| Net loss | $ 14,786 | $ 15,414 | $ 20,629 | — | — |
| Net assets at year end | $ 290,664 | $ 335,211 | $ 332,682 | — | — |
| Purchasing power gain on net monetary items | $ 30,172 | $ 44,084 | $ 59,930 | — | — |
| Average consumer price index | 277.4 | 253.4 | 224.8 | 200.1 | 184.4 |
| **Current Cost Information** | | | | | |
| Net loss | $ 10,018 | $ 10,363 | $ 18,244 | — | — |
| Net assets at year end | $ 274,524 | $ 306,641 | $ 311,285 | — | — |
| Excess of increase in general price level over increase in specific prices | $ 3,152 | $ 13,033 | $ 37,639 | — | — |

**See note 6 to accompanying consolidated financial statements.*

*(a) Includes results of Cavenham Texas Inc. from date of acquisition (see note 2 to the consolidated financial statements).*

*(b) Includes results of Colonial Stores Incorporated from August 29, 1978.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*(Dollar amounts in millions)*

**Overview**

The past three years have been characterized by inflation, a general recessionary environment and extreme competitiveness in the food retailing industry. During this period, the Company acquired J. Weingarten, Incorporated in January 1981, and undertook a major restructuring program during the current fiscal year designed to consolidate a profitable operating base in selected geographic areas. The Company also developed and began implementation of a six year plan which focuses on development of full service

food markets as the core of the Company's future operations.

During the past three years, the Company's sales have increased an aggregate 72% to a level of $4,137.4 in fiscal 1981, with the sales growth primarily attributable to the acquisition of Colonial Stores Incorporated in August 1978 and Weingarten in 1981.

Net income of $24.7 for fiscal 1981 was 28% lower than the prior year, following two successive increases of 12% and 40%. The decline in net income in the current year is primarily attributable to the general economic climate and to certain adverse impacts relating to the major restructuring program undertaken during the current fiscal year. The program included acceleration of the Company's transition from conventional stores to full service food markets and the closing of 150 stores which were unprofitable or which for other reasons would not fit within the long-term strategy of the Company. An additional 62 stores have been closed since the end of the fiscal year and a small number of other stores has been identified for potential sale. The Company has also reorganized its management structure to allow for more direct control over its operations and has begun a major capital development program for the renovation and enlargement of its facilities to accommodate the full service food market concept. The growth in earnings in the earlier years is attributable to acquisitions and an active program for the elimination of marginal stores, expansion in potentially lucrative market areas and consolidation and containment of overhead costs. Following is a more comprehensive review of the Company's operations for the last three years and an overview of the Company's liquidity and capital resources.

## Operations

Sales trends are reflected in the following table:

| Year Ended | Annual Sales | Increase Over Preceding Year Amount | Increase Over Preceding Year Percent |
|---|---|---|---|
| April 3, 1982 | $4,137.4 | $511.2 | 14.1% |
| March 28, 1981 | $3,626.2 | $488.6 | 15.6% |
| March 29, 1980 | $3,137.6 | $738.7 | 30.8% |

The sales increase of 14.1% for fiscal 1981 is attributable to (a) inclusion of the sales of Weingarten for the entire fiscal year (12.9%) and (b) the effects of inflation and the inclusion of the 53rd week in the current fiscal year (4.8%) partially offset by reduced sales volume caused by the closure of 150 stores (3.6% decrease).

The sales increase of 15.6% for fiscal 1980 is attributable to (a) the acquisition of Weingarten (4.4%), (b) inflation (9.5%), and (c) higher volume (1.7%) reflecting increased selling area and the opening of higher volume stores.

The sales increase of 30.8% for fiscal 1979 primarily reflects the inclusion of Colonial's sales for an entire fiscal year together with the effect of opening new and larger stores and the renovation and expansion of stores, offset by the closure of small, obsolete stores, many of which were part of the Colonial acquisition.

Gross profit dollars have increased during the past three years due to the increased sales. Gross profits as a percentage of sales have remained constant as follows:

| Year Ended | Gross Profit Percent |
|---|---|
| April 3, 1982 | 21.8% |
| March 28, 1981 | 21.8% |
| March 29, 1980 | 21.9% |

The increase in operating, administrative and general expenses in each of the three years reflects the costs of operating the increased volume of the Company's business during these periods. In addition, wages and store operating costs, including energy related expenses, have increased at a rate greater than sales.

A comparison of operating, administrative and general expenses as a percentage of sales is as follows:

| Year Ended | Percent |
|---|---|
| April 3, 1982 | 20.8% |
| March 28, 1981 | 20.1% |
| March 29, 1980 | 20.0% |

The increase in other income for fiscal 1981 reflects $16.2 of reimbursement from Holdings under a real estate agreement related to the above-mentioned restructuring

program. For further details of other income see notes 4 and 10 to the accompanying consolidated financial statements. The increase in other income for fiscal 1980 is due to a $6.8 gain on the redemption of the preferred stock of Holdings.

The effective tax rate for the current fiscal year of 15.5% decreased from a 34.1% rate in the prior year primarily due to a new three year tax sharing agreement with Holdings. The effective tax rate for fiscal 1980 decreased from the preceding year's rate of 36.9% due to favorable tax rates on dividend income and higher levels of investment tax credits.

**Liquidity and Capital Resources**

During the past three years, expenditures for property additions, dividends, repayment of long-term debt and capital lease obligations and the acquisition of Weingarten totaled $388.0. Funds provided by operations during this period aggregated $216.8. The balance of funds required was provided from increases in long-term debt and long-term capital leases of $84.3, property disposals at book values of $70.9 and the utilization of available working capital.

As part of the Company's transition from conventional supermarkets to full service food markets and its ongoing program for the opening of new stores and the remodeling of smaller and older stores, the Company has entered a six year $700.0 capital development plan which includes a program of approximately $120.0 of expenditures during fiscal 1982. Funds necessary to provide for this program in fiscal 1982 are expected to be generated by operations, property disposals and leasing transactions.

## STATEMENT OF INCOME ADJUSTED FOR CHANGING PRICES (UNAUDITED)

| | | Average 1981 Dollars | |
|---|---|---|---|
| | Historical Costs | Constant Dollars | Current Costs |
| | | *(in thousands)* | |
| Sales | $4,137,447 | $4,137,447 | $4,137,447 |
| Cost of sales | (3,235,142) | (3,257,418) | (3,256,170) |
| Gross profit | 902,305 | 880,029 | 881,277 |
| Operating, administrative and general expenses* | (862,558) | (879,720) | (876,200) |
| Costs related to store closure program | (8,236) | (8,236) | (8,236) |
| Interest expense | (22,343) | (22,343) | (22,343) |
| Other income | 20,005 | 20,005 | 20,005 |
| Income (loss) before income taxes | 29,173 | (10,265) | (5,497) |
| Income taxes | (4,521) | (4,521) | (4,521) |
| Net income (loss) | $ 24,652 | $ (14,786) | $ (10,018) |
| Increase in general price level of inventories and property held during the year | | | $ 47,027 |
| Effect of increase in specific prices (current costs)** | | | 43,875 |
| Excess of increase in general price level over increase in specific prices | | | $ 3,152 |

**The straight line method of depreciation was used for presentations of the effects of changing prices and is the principal method used in the primary statements. Depreciation and amortization expenses calculated for the primary statements, general inflation and specific prices were $45,748, $62,910 and $59,390, respectively.*

***At April 3, 1982, current cost of inventory was $282,400 and current cost of property, net of accumulated depreciation, was $382,322.*

## EXPLANATORY NOTES

The supplemental information reflects the effects of changing prices on the financial statements in accordance with the provisions of Financial Accounting Standards Board Statement 33 (FASB 33). The disclosures are intended to present the effects of increases in the general price level on the purchasing power of the dollar (constant dollar) and the effects of specific price changes in certain assets used by the Company (current costs) as compared to the primary financial statements (historic costs). Because of the uncertainty as to which method of inflation accounting is most appropriate, the FASB requires that both methods be presented.

Constant dollar accounting is a method of reporting financial statement amounts in dollars each of which is estimated to have the same general purchasing power. Such amounts are measured by using the average Consumer Price Index for All Urban Consumers (CPI-U) for the current fiscal year. Under this method, depreciation expense and cost of sales are increased as a result of the increase in the CPI-U level since the date that the related property and inventories were acquired.

Current cost accounting is a method of measuring and reporting assets and expenses related to the use or sale of such assets at their current costs or lower recoverable amounts as of the balance sheet date. The current cost of inventory closely approximates the amount reported in the primary financial statements due to the relatively short time lag between inventory purchases and the subsequent sale. The current costs of property were determined using specific indices derived from governmental and private organizations.

FASB 33 further provides that income tax expense should not be restated since income taxes are determined and payable on the basis of historical income.

The gain in purchasing power of net monetary liabilities is derived from the concept that monetary assets decreased and monetary liabilities increased in purchasing power value during the period due to inflation. Purchasing power gain has been computed on average net monetary liabilities multiplied by the change in CPI-U for the year.

The excess of the increase in general price levels over the increase in specific prices results from the effects of general inflation, measured by the CPI-U, compared to the specific price increases actually experienced by the Company.

The concepts and procedures established by the FASB for preparation of these disclosures are complex and require the use of assumptions and estimates based on available information. This information therefore should be viewed only as an approximation of inflationary effects.

## SELECTED QUARTERLY DATA (UNAUDITED)

| | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Total |
|---|---|---|---|---|---|---|
| | | | | *(in thousands)* | | |
| Sales | 1981 | $1,283,094 | $954,903 | $939,794 | $959,656 | $4,137,447 |
| | 1980 | $1,052,336 | $803,942 | $830,348 | $939,605 | $3,626,231 |
| Gross profit | 1981 | $ 279,943 | $207,974 | $207,080 | $207,308 | $ 902,305 |
| | 1980 | $ 228,599 | $174,393 | $179,749 | $206,223 | $ 788,964 |
| Net income | 1981 | $ 8,465 | $ 6,855 | $ 6,951 | $ 2,381* | $ 24,652 |
| | 1980 | $ 8,453 | $ 7,472 | $ 11,238 | $ 7,164 | $ 34,327 |

**A reduction in the estimated effective tax rate resulted in an increase of $1,100,000 in net income during the fourth quarter of fiscal year 1981.*

## DIRECTORS

**Patrick A. Deo**
Chairman of the Board and
Chief Executive Officer

**Ernest H. Berthold**
Executive Vice President

**Thomas R. Doyle**
Executive Vice President (Retired)

**Ian M. Duncan**
Corporate Development Director,
Cavenham Limited

**Roland A. E. Franklin**
Chairman of the Board,
Cavenham Holdings Inc.

**Bowman Gray III**
President,
Cavenham Holdings Inc.

**William A. Louttit**
Executive Vice President

**Charles J. Marsden**
Executive Vice President and
Chief Financial Officer

**Joseph J. McCaig**
President and Chief Operating Officer

**Caryle J. Sherwin**
Executive Vice President and
Assistant to the President

**Louis Sherwood**
Senior Vice President

**Earl R. Silvers, Jr.**
Vice President (Retired)

**Vincent J. Veninata**
Senior Vice President

**Jane von der Heyde**
Vice President, Secretary and
General Counsel, Cavenham Holdings Inc.

## OFFICERS

**Patrick A. Deo**
Chairman of the Board and
Chief Executive Officer

**Joseph J. McCaig**
President and Chief Operating Officer

**Ernest H. Berthold**
Executive Vice President,
Merchandising and Distribution

**William A. Louttit**
Executive Vice President,
Atlanta-based Operations

**Charles J. Marsden**
Executive Vice President and
Chief Financial Officer

**Caryle J. Sherwin**
Executive Vice President,
Elmwood Park-based Operations and
Assistant to the President

**Louis Sherwood**
Senior Vice President, Development

**Vincent J. Veninata**
Senior Vice President,
Administrative Services

**Henry S. Addison**
Vice President, Carolina Region

**Jack Calderone**
Vice President, Meat Merchandising

**Kristine M. Hammatt**
Vice President,
Corporate Planning and Secretary

**James E. Herlihy**
Vice President and Controller

**Henry T. Johnson**
Vice President, Marketing

**J. Barron Leeds**
Vice President,
Labor Relations

**John E. Mintz**
Vice President,
Service Departments

**Robert E. Mohel**
Vice President,
Product Development and Quality Control

**William K. Rotert**
Vice President, Operations Control

**Russell W. Schroeder**
Vice President,
Management Information Systems

**David A. Simms**
Vice President,
Personnel for Atlanta-based Operations

**Roger W. Kennedy**
Treasurer

**Baxter T. Duffy**
Assistant Secretary

**Frederick H. Guntsch**
Assistant Secretary

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